

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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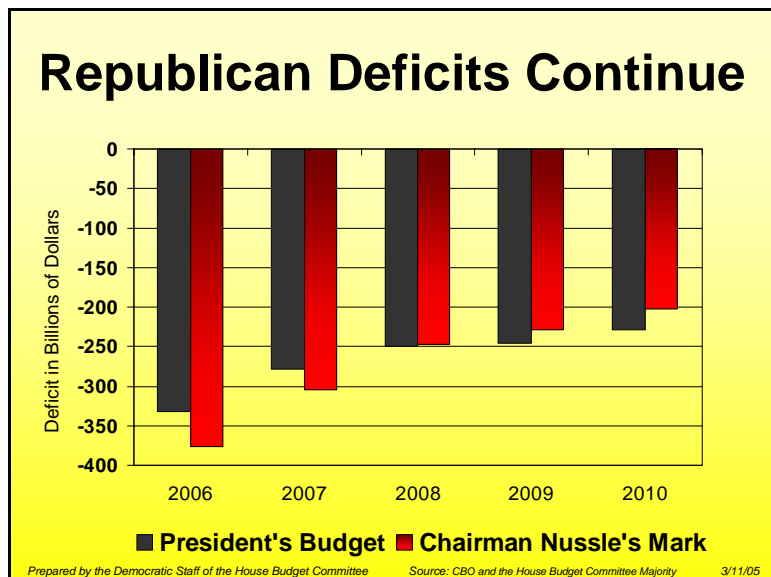
March 14, 2005

House Budget Committee 2006 Budget Resolution: Painful Spending Cuts, Ballooning Tax Cuts, and Never-Ending Deficits

Overview

The Committee-reported budget resolution shares all the flaws of the President's budget: failing to provide a full ten years of numbers, damaging spending cuts, continued large deficits, and spiraling debt. While the President's budget provides guidance on how the deficit targets are to be achieved, imposing numerous cuts to vital programs and trimming investment in important priorities, the Committee-reported resolution lacks any sort of detail, leaving all programs vulnerable to steep cuts.

The Budget Resolution Increases the Deficit — The resolution calls for a deficit of \$376 billion in 2006, which is \$78 billion more than the Congressional Budget Office's (CBO) deficit estimate under current law. The 2006 deficit under the resolution is also \$44 billion more than the deficit shown in the President's budget, largely because the Committee-reported bill assumes funding for the war in 2006 and a one-year fix for the alternative minimum tax (AMT). While the Chairman's amended mark contains slightly smaller deficit projections than the President's budget in 2008 through 2010, over five years the resolution produces deficits that are \$23 billion bigger than the President's, and \$127 billion bigger than CBO's projection of deficits under current law.



Comparison of Budget Deficits Unified Deficits in Billions of Dollars					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
CBO Baseline	-298	-268	-246	-219	-201
President's Budget	-332	-278	-250	-246	-229
House-Reported Res.	-376	-304	-247	-229	-203

But the Deficits Shown Don't Tell The Whole Story — While the Committee-reported resolution leaves out slightly fewer costs than the President's budget does, it still gives a misleading view of future needs and resources. The revenue cuts called for in the resolution accommodate a one-year fix for the alternative minimum tax (AMT), an item the President's budget completely ignores. The Chairman's amended mark also includes \$50 billion as a down-payment for ongoing military operations for 2006, another cost the President fails to account for in his budget. But like the President's budget, the resolution omits the longer-term costs of either the war in Iraq or the AMT. In fact, neither budget shows any of the effects of their policies after 2010, although many policies advocated by the Administration and by House Republicans have costs that rise sharply between 2010 and 2015. Both budgets leave out any of the costs associated with the President's Social Security plan, for example. And, because they show only five years, both leave out the true costs of extending the tax cuts, most of which expire in 2010 and beyond.

Reported Committee Resolution Omits Major Costs

<u>Provision</u>	<u>Resolution</u> (5-Year Cost)	<u>Realistic</u> <u>10-Year Cost</u>
▪War Costs	\$50 Billion	\$384 Billion
▪Alternative Minimum Tax	\$31 Billion	\$642 Billion
▪Extending Tax Cuts	\$106 Billion	\$1.5 Trillion
▪Social Security Privatization	\$0	\$754 Billion

The Republican Budget Includes Continuing Large Tax Cuts — The resolution provides for total tax cuts of \$106 billion over five years, with \$45 billion of those tax cuts falling under reconciliation protection. While the resolution does not assume specific policies with regard to taxes or spending, the revenue amounts are sufficient for a one-year fix for the AMT. AMT repair for five years would cost about \$200 billion, much more than the resolution provides, but a one-year AMT fix would cost roughly \$12 billion in 2006 and \$19 billion in 2007, which could be accommodated under the resolution.

The Budget Resolution Includes Deep Cuts in Medicaid and Other Entitlement Programs — The resolution includes reconciliation instructions for a total of almost \$69 billion in cuts to mandatory spending programs. The Energy and Commerce Committee, which has jurisdiction over Medicaid, is instructed to find \$20 billion in savings in mandatory programs over five years. While the resolution fails to identify the source of these savings, Medicaid accounts for over 90 percent of the budget under the Committee's jurisdiction, excluding Medicare. The Chairman indicated during mark-up that no cuts in Medicare were contemplated. Other committees with jurisdiction over mandatory programs are also required to find large reconciliation savings – for example, more than \$21 billion for the Education and Workforce Committee, and almost \$19 billion for the Ways and Means Committee.

Resolution Deeply Cuts Non-Defense Discretionary Funding — The Republican budget cuts total non-defense discretionary (NDD) funding by \$150 billion below current services levels over five years. It matches the President's defense increases and NDD cuts for 2006-2010, except for an additional \$50 billion that the Chairman's amended mark sets aside for 2006 for the war in Iraq. Both budgets impose deep cuts in NDD funding for 2006 and every following year. By 2010, both Republican budgets cut NDD funding by \$47 billion (10.3 percent) below the amount needed to maintain current purchasing power. These cuts will occur across government services, and could fall on any NDD program, such as veterans' health care, education, homeland security, child care, or environmental protection.

Tax Cuts

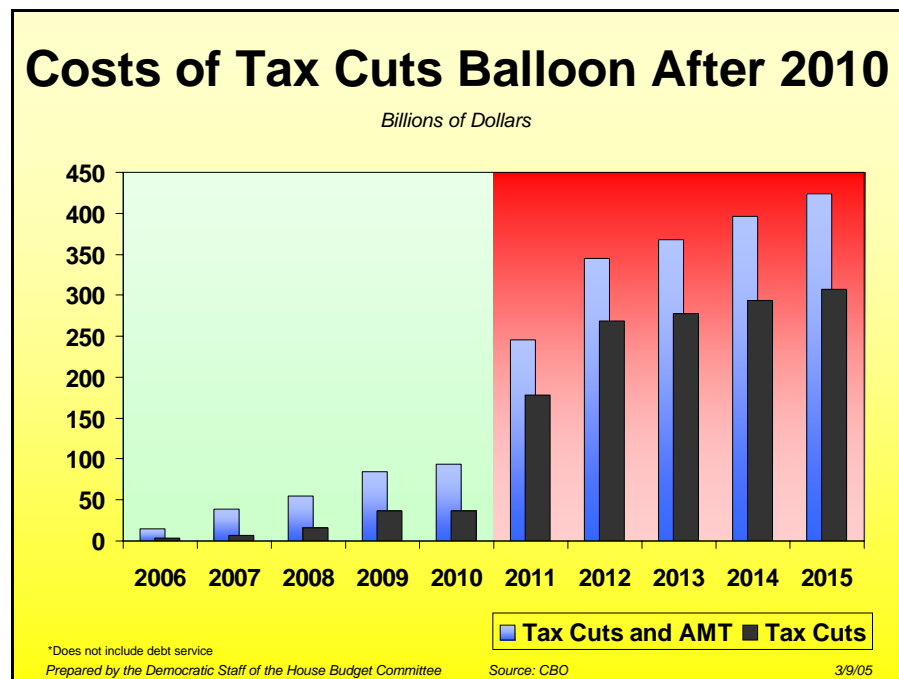
Resolution Cuts Taxes by \$106 Billion Over Five Years, But Gives No Policy Details — The revenue estimates included in the budget resolution leave room for total tax cuts of \$18 billion in 2006 and \$106 billion over five years, but the resolution itself gives no details on how these cuts would be allocated. During the mark-up, however, the Chairman indicated that a one-year AMT fix was assumed. He also suggested that the revenue numbers in the resolution allow for the restoration of the tax preferences for capital gains and dividend income, now scheduled to expire in 2008 and beyond.

- ***AMT Repair*** — The thresholds for the AMT are not indexed to inflation, and it therefore affects more taxpayers each year. A one-year fix to the AMT would cost about \$12 billion in 2006 and about \$19 billion in 2007. (Because taxes are often paid in the year after they are incurred, a one-year fix has revenue consequences over two years.) It would cost about \$200 billion to fix the AMT over five years, however, which is about twice the total revenue cut shown in the resolution.
- ***Dividends and Capital Gains*** — These provisions in the 2003 tax bill reduced the maximum capital gains tax to 15 percent and made the treatment of dividend income equal to that of capital gains. There is little evidence that lowered capital gains rates have improved the overall efficiency of the American economy. In 2005, 75 percent of the tax cuts went to households with incomes over \$200,000. Restoration of these expiring tax provisions would cost \$23 billion through 2010, with all of the costs falling in 2008-10.

Only Some of the Tax Cuts are Included in Reconciliation Instructions — The reconciliation instructions to the Ways and Means Committee direct it to make revenue cuts of \$17 billion in 2006 and \$45 billion over five years – less than half of the total tax cut allowed for in the resolution. No details are given on the policy assumptions behind these instructions.

Total Tax Cuts in the Resolution are Larger than in the President's Budget — The President's budget provides \$100 billion in tax cuts over five years, but does not include repair of the AMT. The approximately \$106 billion in total tax cuts over five years included in the Chairman's amended mark is therefore slightly larger than the amount provided by the President. However, it is about \$25 billion less than the President's cuts would have cost if a one-year AMT had also been included. The tax cuts under the resolution are larger in 2006 and 2007 than in the President's budget, but they are smaller in 2008 through 2010.

Costs of Tax Cuts Would Balloon After Five-Year Window — The budget resolution shows the effects of its assumed policy changes only for the years 2006 through 2010, so the longer-term impacts of the tax cuts it assumes cannot be seen. However, it is Administration policy to make all remaining tax cuts in the 2001 and 2003 tax bills permanent. If the expiring tax cuts were made permanent, the cost from 2011 through 2015 would be about \$1.5 *trillion*, not counting service on the debt. This is far more than the \$100 billion that the President's policies would cost over the first five years. Because the resolution includes no policy details, it is hard to determine which of the President's cuts it includes, but the Chairman is on record as favoring the extension of most of these cuts.



Cuts in Discretionary Appropriations

Republican Budget Matches President's Discretionary Funding — For 2006, both the President's budget and the Committee-passed resolution increase defense funding and cut non-defense discretionary (NDD) funding, for a total level of \$843 billion in non-war funding. The resolution

provides the same level of discretionary funding as the President for each year, with the exception of the additional \$50 billion set aside for the war for 2006; neither budget includes any war funding for 2007 and beyond.

Republican Budgets Cut NDD Funding for 2006 — While the budget resolution simply provides a funding total that the Appropriations Committee allocates according to its priorities, the likely outcome is that defense funding will match the President’s request. As shown in the table below, the remaining NDD funding for 2006 is a cut of \$4 billion below the 2005 enacted level of non-emergency funding. That translates into a cut of about \$12 billion below the amount needed to maintain NDD purchasing power at current levels.

Total Funding for Appropriated Programs (Budget Authority in Billions of Dollars)					
<u>Non-Emergency Amounts:</u>	2004 Enacted	2005 Enacted	2006 Baseline	2006 Pres. and Chairman	President & Chairman v. Baseline
Non-Defense Funding	394.6	408.0	416.1	404.0	-12.1
National Defense	394.0	420.6	431.2	439.0	+7.7
Total Non-Emergency Funding	788.6	828.6	847.3	843.0	-4.3
Iraq supplemental funding	114.5	pending	n.a.	50.0*	
Disaster/other emergencies	3.0	11.5	n.a.	0	
Total including emergencies	906.0	840.0	n.a.	898.0	

The first two lines exclude emergency funding provided in 2004 and 2005. There has been no 2005 funding yet approved for the war, but the President has requested supplemental funding of \$81.9 billion for 2005 and no funding for 2006, while the Chairman’s amended mark includes \$50 billion for 2006. National Defense represents Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.

\$12 Billion Cut in 2006 Will Hurt Services Across the Board — The Appropriations Committee is unlikely to concentrate the Republican funding cut in one area. Therefore, many NDD programs will be cut below their current services level. These cuts could occur in any non-defense discretionary program – veterans’ health, education, homeland security, child care, environmental protection, law enforcement, or any other of the areas Democrats want to protect.

The Committee-reported budget resolution differs from the President’s budget in the funding provided for several budget functions – the resolution cuts the President’s funding level in some functions to add funds to others. (Even with these additions, however, those functions will still fail to maintain purchasing power over time.) These differences are cosmetic, because what matters is the total funding provided to the Appropriations Committee, and that total matches the President’s level except for the additional \$50 billion for war costs.

President’s Budget Indicates Republican Priorities for Discretionary Spending — Because the budget resolution contains no details about which programs it assumes that Congress will cut, the President’s matching budget provides a guide for Republican priorities for 2006. The President’s

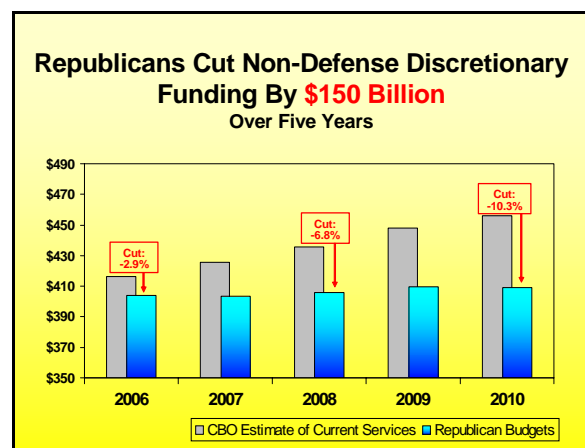
budget contains harmful cuts to veterans, students, first responders, small businesses, law enforcement, health, environmental protection, and urban and rural development. For example, the President's budget imposed the following harmful cuts:

- ***Cuts Funding for Environmental Protection and Conservation*** – Like the President's budget, the Republican Budget also cuts funding for critical environmental needs, sharing the President's misplaced environmental "priorities" in the process. For 2006, the President's budget slashes nearly \$700 million for clean water programs; over \$450 million for critical farm conservation measures; almost \$400 million for ocean and coastline restoration; more than \$100 million for the Land and Water Conservation Fund, including the elimination of the stateside program; and funding for other environmental needs such as state and private forestry and brownfields redevelopment.
- ***Cuts Veteran's Health Care*** — The President's budget eliminates all funding for state grants for extended care facilities. It also cuts \$9 million from medical and prosthetic research activities, and cuts medical personnel by more than 3,000.
- ***Eliminates \$4.3 Billion of Education Programs*** — The budget eliminates 48 education programs that receive \$4.3 billion this year. The eliminations include wiping out \$1.3 billion for all vocational education programs, \$522 million for all education technology programs, and \$29 million for all civic education programs. The budget eliminates other large programs including the Even Start family literacy program (\$225 million) and state grants for safe and drug-free schools and communities (\$437 million).
- ***Slashes Economic Development Funding*** — The budget eliminates many current development programs – including the popular Community Development Block Grant – and consolidates them in a one new grant. But that new grant has about one-third less funding than those programs currently receive, thus cutting the assistance available to benefit distressed communities by at least \$1.5 billion.

For specifics on the many other damaging cuts in the President's budget, see the House Budget Committee Democratic staff's "Summary and Analysis of the President's Fiscal Year 2006 Budget" online at www.house.gov/budget_democrats.

Republican Budgets Have Unrealistic Cuts in Years Beyond 2006

— The President's budget contains program-level detail only for 2006, but both it and the Committee-passed resolution impose deep cuts in NDD funding for every year. By 2010, both Republican budgets cut NDD funding by \$47 billion (10.3 percent) below the amount needed to maintain current purchasing power. Congress has been unwilling to cut vital government services by these levels in the past, and seems unlikely to do so in the future. Nonetheless, the Republican budgets rely on these unrealistic funding cuts to meet their deficit targets over the next five years.



Cuts in Mandatory Spending

Resolution Includes Large Cuts in Mandatory Programs — The Republican resolution directs nine House committees to cut spending on mandatory programs by a total of almost \$8 billion in 2006 and by about \$69 billion over five years (2006-2010). The President's budget reduces overall mandatory spending by a much smaller amount, \$25 billion over five years, as estimated by the Congressional Budget Office. The President's net reduction in mandatory spending includes the effects of a number of proposals that increase spending, the biggest being \$26 billion for health tax credits. Excluding the health tax credit proposal alone, the President's budget cuts total mandatory spending by \$51 billion over five years. If all of the increases in spending were netted out of the President's cuts to mandatory programs, the remaining gross cuts would be similar in size to the cuts shown in the resolution.

Reconciliation Instructions to Committees for Cuts in Mandatory Programs Under the Committee-Reported Resolution (Outlays in Millions of Dollars)		
	<i>2006</i>	<i>2006-2010</i>
Committee on Agriculture	-797	-5,278
Committee on Education and the Workforce	-2,097	-21,410
Committee on Energy and Commerce	-630	-20,002
Committee on Financial Services	-30	-270
Committee on the Judiciary	-123	-603
Committee on Resources	-96	-1,413
Committee on Transportation and Infrastructure	-12	-103
Committee on Veterans Affairs	-155	-798
Committee on Ways and Means	<u>-3,907</u>	<u>-18,680</u>
Total	-7,847	-68,557

Agriculture Committee Slated for \$5 Billion in Cuts Over Five Years — The budget resolution requires the Agriculture Committee to cut mandatory spending by \$797 million in 2006, and by a total of more than \$5 billion over five years. The President's Agriculture Committee budget proposals reduce spending by a total of \$9 billion over five years, mostly through reductions in farm subsidies. The major mandatory programs under the jurisdiction of this committee are farm subsidies and food stamps, both of which were addressed in the 2002 Farm Bill. There is widespread reluctance in Congress to open up the issue of farm subsidies this year; nearly 60 Members of Congress from both sides of the aisle sent a letter to the Chairman on March 3, urging him to keep the Farm Bill intact in the budget resolution. If the Committee decides to leave farm programs alone, food stamps would likely bear the brunt of the cuts, because this program accounts for more than half of the spending under the Committee's jurisdiction. Cutting \$5 billion from food stamps would mean eliminating eligibility for some low-income households or reducing benefit amounts below the current average of \$1 per person per meal.

Chairman's Amended Mark Could Require Student Loan Cuts and Higher PBGC Fees — The reported resolution requires the Education and the Workforce Committee to cut mandatory spending by \$2.1 billion in 2006, and by a total of \$21.4 billion over five years (2006-2010). Although the Republicans have denied that their cuts are driven by specific policies, the reconciled cuts match the proposals in the President's budget to cut student loans, raise the maximum Pell Grant by \$500 over five years, and capture federal savings by requiring single-employer pension plans to pay higher fees to the Pension Benefit Guaranty Corporation. If the cuts are not made in these areas, they would have to come out of programs such as school lunch instead. There are limited targets for cuts in mandatory programs under the jurisdiction of the Education and the Workforce Committee, which has jurisdiction over only four types of mandatory programs:

- 52 percent of Committee spending is for child nutrition programs (school lunch, breakfast, and related programs);
- 30 percent is for student loans;
- 11 percent is for vocational rehabilitation state grants in the Department of Education; and
- 7 percent is for non-Social Security pension and disability programs.

House Republicans Cut Medicaid More Deeply Than the President — The budget resolution directs the Energy and Commerce Committee to cut spending on programs within its jurisdiction by \$20 billion over five years. The Chairman of the Budget Committee highlighted the President's opposition to Medicare cuts, and indicated that for all practical purposes, these reconciled cuts must come from other Energy and Commerce programs. Once Medicare is excluded, Medicaid constitutes 94 percent of the Committee's remaining mandatory spending, so the bulk or all of this \$20 billion in spending cuts will fall on Medicaid. This amount far exceeds the Medicaid cut in the President's budget, which incorporated a package of spending and savings for a net cut of less than \$8 billion over five years for health programs within the Energy and Commerce Committee's jurisdiction.

If the Committee enacts the President's proposal for savings from the Power Marketing Administration (\$627 million) and the sale of spectrum rights (\$4.4 billion), the remaining cut to Medicaid would be about \$15 billion over five years. This amount still requires deeper Medicaid cuts than the President proposed, whether in comparison with the President's net package of spending and savings of \$8 billion, or with the President's gross Medicaid cuts of \$14 billion.

Resources Committee Cuts Could Include Opening the Arctic Refuge or Cutting Power Administrations — Reconciliation instructions in the Committee-passed resolution direct the Resources Committee to find mandatory savings of \$96 million in 2006, and \$1.4 billion total over the 2006 through 2010 period. The major mandatory programs under the jurisdiction of this committee are the Bonneville Power Administration, the Western Area Power Administration, Indian health programs, and lease sales from the Arctic National Wildlife Refuge. Although no details are provided in the resolution on the assumptions underlying the savings assigned to this committee, Republican staff have indicated that savings from opening the Arctic Refuge are not assumed. However, the President's budget finds similar savings through its estimate that Arctic Refuge lease sales will generate \$1.3 billion in offsetting revenues to the U.S. treasury over the 2006-10 period. (CBO currently projects \$2.5 billion would be collected from lease sales over this period under the President's budget proposal.) The President's budget also includes \$157 million in

proposed savings from the Western Area Power Administration (the Pick-Sloan Missouri Basin Program).

Veterans' Programs Underfunded and Targeted for Reductions — The budget resolution includes reconciliation instructions to the Committee on Veterans' Affairs (VA) to legislate \$798 million in cuts to veterans' mandatory programs, in addition to the cuts it includes in discretionary programs for veterans. The instructions provide no direction to the VA Committee on which programs to cut. However, the choices are limited, and the reductions can only be achieved in one of two ways: 1) reducing veterans' benefits, such as disability compensation for veterans who were wounded in combat, pension benefits, education benefits, and death benefits; or 2) increasing fees or imposing new ones, such as those the President proposed in his 2006 budget. The President proposed new enrollment fees and increased drug co-payments on Priority 7 and Priority 8 veterans.

Ways and Means Cuts Likely to Hurt Low-Income Workers and Families — The budget resolution requires the Ways and Means Committee to cut mandatory spending by almost \$19 billion over five years. The President's budget does not include cuts as large as these in the programs under the Committee's jurisdiction. Aside from Medicare and Social Security, almost all of the spending under the committee's jurisdiction provides income security for the vulnerable, such as low-income elderly, the disabled, children, and unemployed and low-wage workers. These programs include the Earned Income Tax Credit, Child Tax Credit, unemployment benefits, Supplemental Security Income benefits for low-income elderly and disabled, Temporary Assistance for Needy Families, and foster care. The President and several key Republican lawmakers have said they do not want changes to Medicare this year, and Social Security is excluded by law from the reconciliation process. If Medicare is "off the table," then nearly all of the \$19 billion in cuts would have to be achieved by reducing supports for low-income populations. In contrast, the biggest cut in the President's budget under this Committee's jurisdiction would save just \$2.7 billion over five years, by ending the payment of antidumping fines directly to U.S. producers harmed by the dumping. No major cuts in mandatory supports for low-income families were proposed by the President.